

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 EA-06 NEA-09 FEA-01

INT-05 STR-01 /072 W

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P R 031816Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 7693

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 01837

C O R R E C T E D C O P Y PROVIDES MISSING LINE PARA 1 LINE 5

PASS TREASURY DEPARTMENT AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: FRG INDUSTRIAL PRODUCTION FORECAST

REFTEL: STATE 016464

1. APPENDED TO THIS CABLE IS THE EMBASSY'S PROJECTION OF THE FRG'S INDUSTRIAL PRODUCTION BY QUARTER THROUGH MID-L976, AS REQUESTED REFTEL. THIS FORECAST IS BASED ON THE FOLLOWING ASSUMPTIONS: (A) NO MAJOR INCREASE IN OIL PRICES WILL TAKE PLACE DURING THE FORECAST PERIOD,

(B) THERE WILL BE NO INTERRUPTION IN THE SUPPLY OF CRUDE OIL, (C) THAT GERMANY'S MAJOR TRADE PARTNERS WILL NOT IMPOSE IMPORT RESTRICTIONS, AND (D) NO ADDITIONAL MAJOR GOVERNMENT STIMULATION OF THE ECONOMY, BUT A
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CONTINUATION OF GRADUAL RELAXATION OF MONETARY

RESTRICTIONS WILL TAKE PLACE.

2. THE EMBASSY'S APPROACH WAS TO LOOK AT THE RATES OF GROWTH OF THE INDUSTRIAL PRODUCTION INDEX AND REAL GNP IN RELATION TO ONE ANOTHER OVER THE PAST 15 YEARS. THESE WERE CHARTED AND CERTAIN CYCLICAL PATTERNS AND RELATIONSHIPS ESTABLISHED. THE SHAPE OF THE CURVE FOR THE PERIOD 1964-67 WAS ASSUMED TO BE THE ONE THAT MOST CLOSELY APPROXIMATED THAT OF 1973-76, ALTHOUGH, IN THE LATTER PERIOD IT IS ASSUMED TO BOTTOM OUT AT A SLIGHTLY LOWER POINT AND TO NOT RISE QUITE AS HIGH AT ITS PEAK DUE TO ONGOING STRUCTURAL CHANGES.

3. THERE IS NO PRESENTLY AVAILABLE QUANTIFIED FORECAST OF INDUSTRIAL PRODUCTION, ONLY GLOOMY IMPRESSIONS FROM AN IFO INSTITUTE SURVEY OF BUSINESSMEN. AS A RESULT, THE EMBASSY USED THE MORE READILY AVAILABLE GNP FORECASTS AS A STARTING POINT AND ASSUMED FROM THEM A CERTAIN BEHAVIOR FOR INDUSTRIAL PRODUCTION THAT ALSO ACCORDED WITH PAST PATTERNS. THE CLOSE INTERRELATIONSHIP OF INDUSTRIAL PRODUCTION (53 PERCENT WEIGHTING IN ITS MAKEUP) TO GNP FURTHER LENT VALIDITY TO THIS APPROACH. THEREFORE, IT IS OF INTEREST TO POINT OUT THAT GNP GROWTH ASSUMPTIONS IN REAL TERMS (OVER SAME PERIOD PREVIOUS YEAR) WERE AS FOLLOWS: (A) 1ST QUARTER 1975, MINUS 1.5 PERCENT; (B) 2ND QUARTER, MINUS 1.5 PERCENT; (C) 3RD QUARTER, ZERO GROWTH; (D) 4TH QUARTER, PLUS 3 PERCENT; (E) FIRST QUARTER 1976, PLUS 4 PERCENT; AND (F) 2ND QUARTER, PLUS 5 PERCENT. LOOKING TO THE LONGER TERM, GNP GROWTH WOULD PROBABLY PEAK IN THE SECOND QUARTER OF 1976, DROPPING OFF VERY GRADUALLY TO A 3 PERCENT ANNUAL RATE IN THE THIRD QUARTER 1977. ADMITTEDLY THIS FORECAST IS QUITE TENUOUS BUT IS BASED ON ALL THE DATA AT HAND. OF COURSE IT SHOULD BE TREATED AS ALL ECONOMIC FORECASTS IN THESE DAYS, I.E., WITH A GRAIN (OR PERHAPS, TON) OF SALT.

4. COMMENT. CHARTING THE NUMBERS REFLECTS THE GNP AND INDUSTRIAL PRODUCTION GROWTH RATE CURVES TURNING UP IN THE SECOND QUARTER 1975 AND CROSSING INTO THE POSITIVE

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GROWTH RATE RANGE IN THE THIRD AND FOURTH QUARTERS OF 1975. BOTH THESE DEVELOPMENTS FOLLOW THE GENERAL FEELING AMONG KNOWLEDGABLE OBSERVERS AS TO LIKELY NEAR-TERM DEVELOPMENTS. NOTABLE IS THE FACT THAT, ACCORDING TO THIS FORECAST, BY THE SECOND QUARTER 1976 THE INDUSTRIAL PRODUCTION INDEX WILL ONLY HAVE REACHED THE LEVEL THAT IT HAD ATTAINED THREE YEARS EARLIER IN THE SECOND QUARTER OF 1973 (SEE APPENDED TABLE). THIS SHOULD HAVE

AND IS HAVING CONSIDERABLE REPERCUSSIONS ON THE SIZE OF THE REQUIRED INDUSTRIAL LABOR FORCE. IF ONE ASSUMES THAT AN AVERAGE INCREASE IN WORKER PRODUCTIVITY OF 2.5 PERCENT ANNUALLY IS MAINTAINED OVER THIS 3-YEAR PERIOD (WHICH IS THE AVERAGE RATE DURING THE PAST FEW MONTHS OF LOW CAPACITY UTILIZATION AND NEGATIVE PRODUCTION GROWTH RATES) IT WOULD SIGNIFY THAT A 9 PERCENT SMALLER INDUSTRIAL WORK FORCE (A REDUCTION OF 720,000 WORKERS) WILL BE REQUIRED IF THERE ARE NO

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OFFSETTING STRUCTURAL CHANGES. THESE COULD AND PROBABLY WOULD MEAN AN ENLARGEMENT OF THE SERVICES SECTOR AND ITS DEMAND FOR LABOR AS WELL AS THE SENDING HOME OF FOREIGN WORKERS. OF COURSE, THE CERTAIN DEGREE OF INCREASED UNEMPLOYMENT ENGENDERED COULD HAVE AN EFFECT ON THE RESULTS OF THE NATIONAL ELECTION SCHEDULED FOR THE FALL OF 1976, EVEN THOUGH THE TIMING OF THE PEAKING OUT OF BOTH GNP AND INDUSTRIAL GROWTH SEEM PRACTICALLY OPTIMAL FOR ELECTION RESULT PURPOSES. THIS

LATTER FAVORABLE DEVELOPMENT DISREGARDS, HOWEVER, THE
POTENTIALLY COUNTERBALANCING NEGATIVE EFFECTS ON VOTER
SENSIBILITIES OF THE HIGHER THAN ACCEPTABLE INFLATION
RATE POSSIBLY INHERENT IN THE GROWTH PATTERN FORECAST.
THIS IS A FEAR THAT HAS BEEN EXPRESSED TO THE EMBASSY
BY KNOWLEDGEABLE MEMBERS OF CHANCELLOR SCHMIDT'S STAFF.
END COMMENT

5. FRG INDUSTRIAL PRODUCTION BY QUARTER; SEASONALLY
ADJUSTED; (1962 EQUALS 100):

	1973	1974	1975	1976
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1ST QUARTER	176	178	166	174
2ND QUARTER	177	177	165	177
3RD QUARTER	177	174	171	183
4TH QUARTER	180	172	174	187

NOTE: 1973-1974 DATA FROM BUNDESBANK MONTHLY REPORT
1975-1976 EMBASSY PROJECTION

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